

Message Text

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ACTION EA-10

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FM AMEMBASSY RANGOON

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AMEMBASSY BANGKOK

AMCONSUL CHIANG MAI

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E.O. 11652: N/A

TAGS: SNAR BM

SUBJ: APPRAISAL OF SITUATION AMONG NARCOTICS TRAFFICKERS IN
NORTHEAST BURMA

1. SUMMARY: ECONOMIC FACTORS AND INCREASED ENFORCEMENT EFFECTIVE-

NESS HAVE COMBINED TO CAUSE THE WORST SUMMER IN RECENT MEMORY FOR THE ILLICIT NARCOTICS INDUSTRY IN NORTH BURMA. WHILE TOO EARLY TO GAUGE THE LONG TERM IMPACT OF THIS SITUATION ON THE MOVEMENT OF NARCOTICS INTO INTERNATIONAL CHANNELS, OVER THE SHORT TERM THE AMOUNT OF NARCOTICS LEAVING BURMA SHOULD BE SHARPLY REDUCED. THE FALLING PRICE OF OPIUM, THE FIGHTING BETWEEN THE BURMA ARMY AND THE BURMESE COMMUNIST PARTY (BCP), AND THE FUTURE OF THE BURMESE ECONOMY WILL PLAY KEY ROLES IN DETERMINING THE FUTURE DEVELOPMENT OF THE NARCOTICS INDUSTRY. END SUMMARY.

2. ILLICIT NARCOTICS TRAFFICKING IN NORTHERN AND CENTRAL SHAN STATE OF BURMA IS CURRENTLY EXPERIENCING ONE OF ITS WORST SUMMERS IN

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RECENT MEMORY. THIS SITUATION IS A RESULT OF ECONOMIC FACTORS,

INCREASED BURMESE ENFORCEMENT EFFORTS, AND RENEWED FIGHTING BETWEEN THE BURMA ARMY AND THE BCP.

3. THE PRICE OF OPIUM AND ITS DERIVATIVES AT THE TRADITIONAL FOREIGN SALES POINTS ALONG THE THAI BURMA BORDER IS THE LOWEST IN THE PAST 18 MONTHS. WHEREAS IN FEBRUARY OPIUM WAS QUOTED AT ABOUT 2500 KYAT PER VISS (1.64 KILOGRAMS), BY THE END OF JUNE THE PRICE HAD DROPPED TO 1050 KYAT PER VISS. AT THE SAME TIME, THE VALUE OF THE BURMESE KYAT CONTINUED TO DETERIORATE. AT THE SAME BORDER POINTS ONE KYAT WAS BEING QUOTED AROUND 25 KYAT TO 1 US\$ (AS COMPARED TO THE OFFICIAL RATE OF KYAT 6.3583 TO 1 US\$). THE TRAFFICKERS ARE THEREFORE SUFFERING TWICE. THE SALE PRICE OF THEIR PRODUCTS HAS DROPPED AT THE SAME TIME THAT THE PURCHASING POWER OF THE KYAT HAS BEEN ERODING BOTH BECAUSE OF ITS DECLINING "REAL" VALUE AND A SHARP INFLATIONARY TREND IN THE BURMESE DOMESTIC ECONOMY. THIS COMBINATION PRODUCES A SHARPLY REDUCED PURCHASING POWER PER UNIT OF OPIUM. WITH LESS BUYING POWER, THE MERCHANTS AND TRAFFICKING ORGANIZATIONS ARE ABLE TO BUY FEWER CONSUMER GOODS WHICH ARE SUBSEQUENTLY SOLD BACK IN BURMA THEREBY SUPPLYING THE KYAT WITH WHICH THE RAW OPIUM IS PURCHASED FROM THE CULTIVATOR. INSURGENT ORGANIZATIONS WHO RELY AT LEAST IN PART ON THE PROFITS FROM OPIUM TO BUY THEIR ARMS ARE SIMILARLY SUFFERING. TO AVOID TAKING THE LOSSES INVOLVED IN CURRENT SALES, THESE TRAFFICKERS WITH SUFFICIENT CAPITAL TO DO SO ARE STORING THEIR OPIUM ALONG THE BORDER AREA TO AWAIT A PRICE INCREASE. MUCH OPIUM IS THEREFORE AVAILABLE AT THE BORDER WHICH ALSO HAS A PRICE DEPRESSING EFFECT. THE LONGER THE PRICE UPTURN TAKES, THE MORE IT COSTS THE MERCHANTS WHO HAVE THEIR CAPITAL TIED UP IN THE BORDER STORAGE SITES. WHILE BIG TRAFFICKING ORGANIZATIONS PROBABLY HAVE SUFFICIENT CAPITAL TO SURVIVE THESE PRESSURES OVER A REASONABLE PERIOD OF TIME, THE LITTLE MERCHANTS WHO BUY FROM THE CULTIVATORS FOR SUBSEQUENT RESALE IN THAILAND ARE UNQUESTIONABLY FEELING THE PINCH AND COULD BE FORCED TO TURN TO OTHER MEANS OF LIVELIHOOD, AT LEAST TEMPORARILY.

4. THE SUDDEN LOSS OF THE INDOCHINA MARKET SEEMS TO BE THE MOST PERSUASIVE REASON FOR THE DOWNTURN IN OPIUM PRICES, ALTHOUGH IT IS POSSIBLE NEW OPIUM SOURCES ARE OPENING IN AREAS OUTSIDE THE GOLDEN TRIANGLE AND OUTSIDE THE KNOWLEDGE OF THIS EMBASSY, E.G. MEXICO. WHILE IT IS IMPOSSIBLE TO QUANTIFY THE AMOUNT OF BURMESE OPIUM THAT WAS ABSORBED INTO INDOCHINA, A FIGURE BETWEEN ONE-QUARTER LIMITED OFFICIAL USE

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AND ONE-HALF OF TOTAL BURMESE OUTPUT SEEMS REASONABLE. THE SPEED WITH WHICH THAT MARKET WAS LOST MUST HAVE CAUGHT THE TRAFFICKERS UNPREPARED TO CHANNEL THE MERCHANDISE INTO NEW MARKETS. AN EVENTUAL UPTURN IN THE MARKET PRICE FOR OPIUM COULD THEREFORE BE A REFLECTION OF HOW SUCCESSFUL THE TRAFFICKERS ARE IN ESTABLISHING NEW MARKETS OR ENLARGING OLD ONES.

5. SUCCESSFUL BURMA ARMY ENFORCEMENT ACTIONS OCCURRING SIMULTAN-

EOUSLY WITH THESE ECONOMIC ASPECTS HAVE FURTHER AGGRAVATED THE TRAFFICKERS' PROBLEMS. REPORTS, WHICH THE EMBASSY CAN INDEPENDENTLY CONFIRM, ARE CIRCULATING OF A SUCCESSFUL BURMA ARMY EFFORT AGAINST TWO REFINERIES IN THE TANG YAN AREA OF NORTHERN SHAN STATE. AS A RESULT OF THIS RAID, SEVERAL OTHER REFINERIES VOLUNTARILY CLOSED, AT LEAST TEMPORARILY, FROM FEAR OF SIMILAR BURMESE ACTIONS. SUCCESSFUL ENFORCEMENT ACTIONS AGAINST FIXED INSTALLATIONS ARE PARTICULARLY DAMAGING TO TRAFFICKERS BECAUSE IT CAUSES THE LOSS OF VALUABLE REFINING EQUIPMENT SUCH AS CHEMICAL AND LARGE VATS (THREE SUCH VATS WERE SEIZED IN THE JUNE RAID) WHICH ARE NOT EASILY REPLACEABLE IN NORTH BURMA. CONTINUED ACTIONS AGAINST REFINERIES COULD ALSO FORCE THE TRAFFICKING ORGANIZATION TO RETURN TO THE EARLIER PRACTICE OF MOVING THE RAW OPIUM TO REFINERIES IN THE THAI BURMA BORDER AREA. SUCH A MOVE WOULD INCREASE THE VOLUME OF GOODS TO BE MOVED BY A FACTOR GREATER THAN FIFTY PERCENT. NARCOTICS CARAVANS HOWEVER ARE NOT IMMUNE TO BURMESE ACTION. THE BURMA ARMY RECENTLY DEMONSTRATED ITS CAPABILITY TO OPERATE AGAINST NARCOTICS CARAVANS BY SUCCESSFULLY ATTACKING TWO NARCOTICS CARAVANS. TO THE EMBASSY'S KNOWLEDGE, NO NARCOTICS CARAVAN HAS SUCCESSFULLY NEGOTIATED THE NORTH SOUTH ROUTE IN SEVERAL MONTHS. THUS, AS THE PRICE FOR OPIUM DROPPED, THE RISKS IN MOVING AND STORING IT INCREASED. HOWARTH

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6. INCREASED FIGHTING BETWEEN BURMA ARMY AND BURMESE COMMUNIST PARTY (BCP) FORCES IN AREAS WHICH STRADDLE SOME OF THE TRADITIONAL NORTH SOUTH CARAVAN ROUTES IS ALSO CAUSING DISRUPTION OF THE TRADE. IN LATE JUNE, THE BURMA ARMY ANNOUNCED OPERATION "AUNG KYAW MOE" WHICH OCCURRED BETWEEN THE SALWEEN AND NAM PANG RIVERS, AN AREA IN THE PAST FAVORED BY CARAVANS. WITH AN INCREASED NUMBER OF TROOPS IN THE AREA AND FIGHTING REPORTEDLY CONTINUING, TRAFFICKING ORGANIZATIONS THAT WANT TO MOVE OPIUM SOUTH MUST FACE THE RISK OF ENCOUNTERING BCP OR BURMA ARMY COMBAT FORCES OR DETOURING TO THE WEST, TOWARD BURMA ARMY CONTROLLED AREAS, OR EAST TOWARD BCP LAND. NEITHER OF THESE ALTERNATIVES IS PARTICULARLY ATTRACTIVE.

7. THE ROLE OF THE BCP ITSELF IS NOT YET CLEAR, ALTHOUGH A SIGNIFICANT BODY OF EVIDENCE EXISTS TO INDICATE THAT OPIUM IS BEING MOVED BY BCP UNITS. THIS EVIDENCE ALSO SUGGESTS THAT THE OPIUM IS ENTERING TRADITIONAL INTERNATIONAL CHANNELS RATHER THAN INTO CHINA AS WAS EARLIER SUGGESTED. IT IS NOT POSSIBLE TO QUANTIFY THE AMOUNT OF OPIUM BEING HANDLED BY THE BCP.

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8. RELATIVELY SMALL AMOUNTS OF OPIUM CONTINUE TO MOVE TO THE THAI BORDER FROM AREAS IN THE SOUTHERN SHAN STATE, AN AREA WHICH HAS BEEN TRADITIONALLY BEYOND THE RANGE OF EFFECTIVE BURMA ARMY ACTIONS.

9. WHILE THE PRESENT SITUATION WITHIN THE ILLICIT NARCOTICS INDUSTRY IS ENCOURAGING TO U.S. INTERESTS, SEVERAL UNKNOWNSTILL REQUIRE A CAUTIONARY NOTE IN ANY FUTURE ESTIMATE. THE TRAFFICKERS ABILITY TO ESTABLISH NEW MARKETS AND THEREBY FORCE THE PRICE OF OPIUM BACK TO EARLIER LEVELS IS A KEY FACTOR. THE ECONOMIC STRENGTH OF THE GUB AND ITS ABILITY MEET THE DEMANDS PRESSING IN FROM ALL SIDES OF THE DOMESTIC SECTOR IS ANOTHER UNKNOWN. IF ALL THINGS WERE POSSIBLE, WE ARE OPTIMISTIC THE GUB WOULD ENERGETICALLY PURSUE THEIR ANTI-NARCOTICS PROGRAMS. AS IT IS, WE ARE OPTIMISTIC THEY WILL DO SO WITHIN THE RESOURCES AVAILABLE TO THEM. IN ANY COMPETITION FOR RESOURCES BETWEEN, FOR EXAMPLE, PE ANTPCANARCOTICS EFFORT AND BATTLE WITH THE BCP OR AGAINST FURTHER ECONOMIC DETERIORATION, THE GUB WILL BE FORCED TO GIVE PRIMACY TO THOSE SECTORS THAT DIRECTLY AFFECT ITS SURVIVAL.

10. MISSION CURRENTLY ATTEMPTING TO DEVELOP COST DATA ON OPIUM PRODUCTION PROCESS IN EFFORT TO DETERMINE "BREAK EVEN" PRICE AT THAI BORDER.
HOWARTH

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